MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2022/2023

BAC2684 – FINANCIAL STATEMENT ANALYSIS

(All sections / Groups)

7 OCTOBER 2023
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT:

1. This paper consists of **FIVE (5)** pages excluding a cover page with **4** questions only.
2. Answer **ALL** questions.
3. All questions carry equal marks and the distribution of marks for each question is given.
4. Please write all your answers in the Answer Booklet provided.

QUESTION 1

1. A company requires financing to carry out its business activities. Explain the two main sources of external financing for a company.

(3 marks)

2. Explain what debt financing is. What are the two (2) key features of debt financing?

(4 marks)

3. Kangaroo Air Services Sdn Bhd is a medium size airline company that provides low-cost domestic flight services between states in peninsular Malaysia, Sabah and Sarawak. On 1st.March 2021, the company entered into a lease agreement with Muda Aircraft for a 14-seater secondhand aircraft for an annual lease rental of RM 50,000. The term of the lease is for 5 years and the lessor's interest rate implicit in the lease is 8%. The lessee' incremental borrowing rate is 8.25%. The useful life of this aircraft is 5 years and there is no residual or salvage value. The fair value of the leased aircraft equals the present value of rentals.

(Annuity tables indicate that the present value of an annual lease rental of RM1 at 8% interest rate = RM3.993. ***Round up all decimal points in your calculations.)***

Required

(a) Prepare a lease amortization schedule (table form) for the above lease for the five-year lease term.

(10 marks)

(b) Construct a table showing expenses charged to the income statement for the five-year lease term. Show columns for (1) depreciation, (2) interest and (3) total expense.

(5 marks)

(c) Prepare accounting entries to record the lease for the **1st Year** only.

(3 marks)

[TOTAL 25 MARKS]

Continued...

QUESTION 2

1. Maya Bhd and Alcare Bhd are two companies competing in the same industry. The following summary information from the financial statements of the two companies are as follows:

Statement of Financial Position as at 31 December 2022		
	Maya Bhd RM	**Alcare Bhd RM**
Assets		
Cash	18,500	33,000
Accounts receivable (net)	38,400	58,400
Notes receivable	10,100	8,200
Inventories	83,440	131,500
Prepaid expenses	5,000	6,950
Property, Plant & Equipment (net)	290,000	304,400
Total Assets	**445,440**	**542,450**
Liabilities and Equity		
Current liabilities	61,340	91,300
Long-term notes payable	80,800	103,000
Common stock, RM 5.00 par	190,000	216,000
Retained earnings	113,300	132,150
Total liabilities and equity	**445,440**	**542,450**

Statement of Profit and Loss for the year ended 31 December 2022

	Maya Bhd RM	**Alcare Bhd RM**
Sales	780,000	890,200
Cost of goods sold	(575,100)	(622,500)
Interest expense	(7,800)	(13,300)
Income tax expense	(14,900)	(24,000)
Net Income	**182,200**	**230,400**
Basic earnings per share	4.51	5.11

Beginning of the year balance

	Maya Bhd RM	**Alcare Bhd RM**
Accounts receivable (net)	30,800	55,200
Notes receivable	0	0
Inventory	54,600	106,400
Total assets	398,000	382,500
Common stock, RM 5.00 par value	190,000	216,000
Retained earnings	88,300	83,600

Continued...

Required

(a) Assume that each company paid cash dividends of RM 3.80 per share and each company's stock can be purchased at RM 75.00 per share. Compute the following ratios for both companies:

1) Current ratio.
2) Acid-test ratio.
3) Accounts receivable turnover.
4) Inventory turnover.
5) Days' sales in inventory.
6) Net profit margin.
7) Total asset turnover.
8) Return on common stockholders' equity.
9) Price-earnings ratio.
10) Dividend yields.

Note: Number of days in a year is 365 days.

(15 marks)

(b) Identify the company you consider to be a better short-term credit risk and explain why.

(5 marks)

(c) Identify which company's stock you would recommend as a better investment and explain your choice.

(5 marks)

[TOTAL 25 MARKS]

Continued...

QUESTION 3

1. The process of asset accounting involves three (3) distinct activities. List and explain each of these three (3) activities.

(3 marks)

2. Bina Putra Bhd purchased a new excavator machine to be used for its current construction project. The cost of the excavator machine is RM 200,000. Before it was put to use, the company painted the machine at a cost of RM 3,000 to reflect the company's corporate identity. In addition, because of the specialized nature of the construction project, the company spent an additional RM 5,000 to fix a turbocharger to the engine to increase its power capacity. The useful life of the excavator machine is five (5) years with a salvage value of RM 15,000. The annual mileage of the excavator machine is expected to be 50,000 miles for each of the four (4) years and 20,500 miles in the fifth year, a total of 220,500 miles.

Required:

1. What is the total cost of the asset?

(2 marks)

2. Prepare a depreciation schedule (Year, depreciation expense, accumulated depreciation, and book value) for each of the depreciation methods:

   a. Straight-line,

(5 marks)

   b. Units-of-production *(rate to be calculated to three (3) decimal place).*

(5 marks)

   c. Double-declining balance.

(7 marks)

3. Which method of depreciation would report the highest net income in the first year? Which method of depreciation would minimize income tax in the first year?

(3 marks)

TOTAL 25 MARKS]

Continued...

QUESTION 4

1. The statement of cash flows shows three (3) main categories of activity. Explain briefly each of these categories. Which category provides the most useful information about the company? Justify.

(5 marks)

2. The Statement of Financial Position of Dexter Bhd is as follows:

	Year 1	**Year 2**
Assets		
Cash	100,000	150,000
Accounts receivable	200,000	180,000
Inventory	400,000	410,000
Property, Plant & Equipment	700,000	690,000
Accumulated depreciation	(200,000)	(245,000)
Land	100,000	150,000
Total Assets	**1,300,000**	**1,335,00**
Liabilities and Equity		
Accouts payable	300,000	250,000
Loan payable	-	110,000
Preferred stock	100,000	-
Common stock	240,000	280,000
Paid in capital in excess of par	360,000	420,000
Retained earnings	300,000	275,000
Total laibilities and equity	**1,300,000**	**1,335,000**

Additional information and related transactions are as follows:

a) The company reported a net loss of RM 15,000 for year 2.

b) Purchased equipment costing RM 50,000.

c) Sold equipment costing RM 60,000 for RM 40,000. The accumulated depreciation for this equipment was RM 35,000.

d) Retired preferred stock at a cost of RM 110,000.

e) Issued 10,000 shares of common stock (par value, RM 4.00) for RM 10.00 per share.

f) Purchase land for RM 50,000.

Required:

Prepare a statement of cash flow for Year 2 using the indirect method.

(20 marks)

[TOTAL 25 MARKS]

END OF PAPER.